Currents

- PROVINCIAL GOVERNMENT REVENUES
- ALBERTA'S LIVESTOCK INDUSTRY
- SIX YEARS OF MINORITY GOVERNMENT

CanadaWest FOUNDATION

Western Canada's Monthly Economic Bulletin

Vol. 2010, No. 6

Monthly Highlights

Steady growth has returned to Canada. Real GDP growth accelerated to 6.1% (annualized) in the first quarter of 2010, following 4.9% growth in the last quarter of 2009. The first quarter advance was significant for three reasons: it confirmed that Canada's hesitant growth at the end of 2009 was now solidly entrenched; it spread across all economic drivers: consumption, exports and investment; and it was quite high compared to that of the US (+3.0%) and the Euro zone (+0.8%) over the same period.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,293	1,994	526	620	17,097	May
% change	-0.4	0.7	-0.3	0.2	0.1	
Unemployment rate (%)	7.5	6.6	5.0	5.7	8.1	May
change in percentage points	0.2	-0.8	-0.2	0.8	0.0	
Participation rate (%)	65.8	73.2	70.1	70.4	67.3	May
Average weekly earnings ($)	812.17	998.49	838.23	777.49	844.45	March
% change	0.6	1.3	1.4	0.3	0.4	
Inflation						
Consumer Price Index (% change)*	1.0	1.6	2.1	1.0	1.8	April
Economic Activity						
Housing starts (000s)**	28.3	35.7	4.2	3.4	200.7	April
% change	13.7	4.7	5.0	-10.5	0.8	
Retail trade ($M)	4,869	5,063	1,266	1,333	36,994	March
% change	0.6	1.5	1.8	1.5	2.1	
Wholesale trade ($M)	4,030	5,001	1,666	1,134	44,407	March
% change	2.1	2.2	3.7	3.2	1.4	
Manufacturing sales ($M)	2,994	5,114	991	1,192	44,536	March
% change	3.8	0.9	2.8	4.9	1.2	

** Compared to same month in the previous year. ** Annual rate (monthly figures are multiplied by 12 to reflect annual levels). Unless otherwise noted, data are seasonally adjusted and percent change is from previous period. Source: Statistics Canada, Canada Mortgage and Housing Corp.*

Meanwhile, Alberta job creation led the West in May as 14,700 net new jobs were created in the province compared to April, a gain of 0.7%. This marked the best monthly result for Alberta in a year and a half. Meanwhile, job numbers edged up marginally in Manitoba (+0.2%), while they declined in Saskatchewan (-0.3%) and BC (-0.4%).

In April, the year-to-year consumer inflation rate increased across the West except for Manitoba. Saskatchewan's inflation rate nearly doubled from 1.1% in March to 2.1% in April, reflecting less downward pressure from natural gas prices.

In March, wholesale trade was up all across Canada compared to March. Growth in the West was solidly above the national average, with Saskatchewan leading the way (+3.7%). Alberta sales advanced for the fifth consecutive month. Retail sales were up in each western province in April compared to March, but the growth rates were below the national average.

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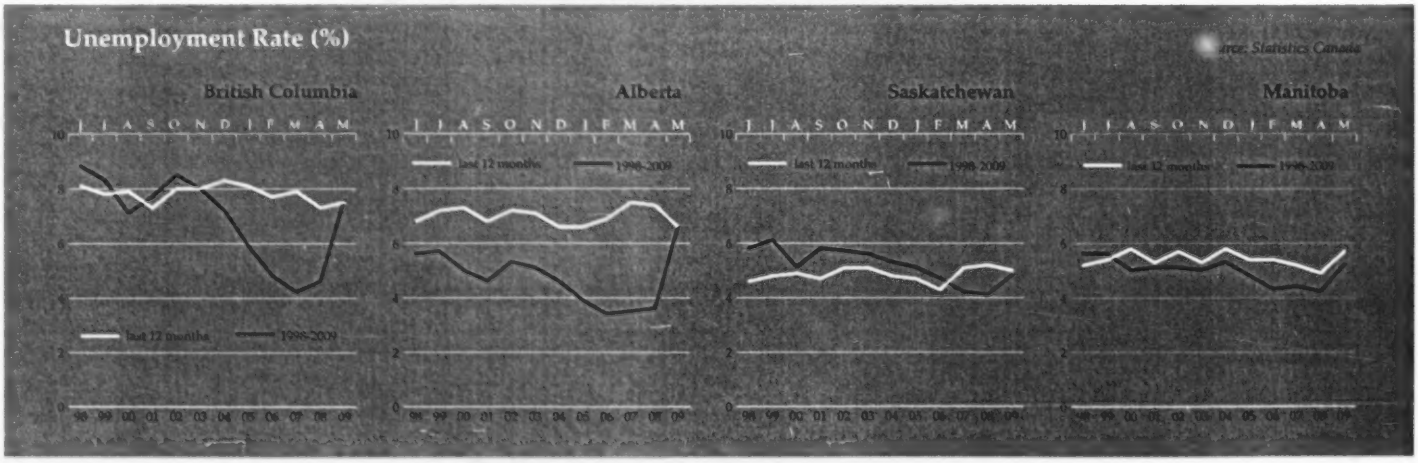
Unemployment Rate (%)


Source: Statistics Canada
British Columbia
Alberta
Saskatchewan
Manitoba
J F M A M J J A S O N D J F M A M
last 12 months
1998-2009
98 99 00 01 02 03 04 05 06 07 08 09

Monthly Feature

Filling the Provincial Coffers

The recent passing of the Honourable Duff Roblin, who is regarded by many as the best premier Manitoba ever had, provides an opportunity to reflect on the type of "fuel" on which good government policy operates. Obituaries of Premier Roblin commended him for the realizations of the government he led from 1958 to 1967, especially the Red River Floodway and the overhaul of Manitoba's education system. Not many mentioned that to help pay for those accomplishments (or part of them), he also established a sales tax in Manitoba in 1967. This should have been included in the list of Roblin accomplishments, if only because we all need to be reminded, from time to time, that nothing is free in life.

As taxpayers we are keenly aware that our provinces have many mechanisms in place to ensure that revenues are regularly collected to keep the delivery of services going. We also have a vague idea that each province has its own unique way of raising revenue (sarcastic readers will prefer the phrase "of taxing anything that moves"). The table below illustrates how revenue sources vary across the West based on a data snapshot taken for the 2008-2009 fiscal year.

The first thing that strikes the eye is natural resource royalties. Whereas nearly a third (30.5%) of Alberta's revenues is royalty-based, Manitoba uses this form of income very marginally (1.5%). Heavy reliance on natural resource revenue is not always good news. While it is easy to see resource royalties as the budgetary equivalent of having a rich uncle, one must keep in mind that this uncle can be unpredictable if world commodity prices do not match expectations.

A second element to note is that when examined as a lump sum, personal and corporate taxes are not that different from one province to the next. While there is some provincial variety for the lump sum (ranging from 26.7% in BC to 34.7% in Alberta), in each province it is roughly split the same way: two-thirds personal tax and one-third corporate tax. This is not the case, however, for sales taxes. Alberta still limits its sales tax tools to excise taxes on "sins," which provides only 5.3% of the province's receipts compared to about 20% of the revenues derived from sales taxes in the other western provinces.

Finally, regardless of "have" or "have not" provincial status, federal transfers do matter a lot for each of the provinces. Payments from the federal government to assist with health and social service costs represent 9.8% (Alberta), 15.1% (Saskatchewan) and 15.4% (BC) of provincial revenues. As the only western "have not" province, Manitoba qualifies for equalization payments, hence the much larger share (36.1%) of federal transfer payments within this province's revenues.

Among these different types of revenue, the most stable ones tend to be sales taxes, followed by personal income taxes. Provinces wanting to make their revenues less volatile (and therefore easier to forecast as part of the budget-writing exercise) would favour policies that increase the relative weight of sales taxes in their revenue plate and that tone down less-predictable income sources such as resource royalties. With all the sales tax discussions currently ongoing at various degrees across the West (including the heated HST debate in BC), this is something to ponder.

Did you know?

- Alberta's tax system has two unique aspects: there is no general sales tax and the personal income tax is "flat" (i.e., only one rate is applied for any level of taxable income).
- BC's personal income tax system has five income brackets, with tax rates ranging from 5.06% to 14.70%.
- The provincial sales taxes in BC, Saskatchewan and Manitoba were introduced in 1948, 1937 and 1967 respectively.
- Across the West, Saskatchewanians pay the most per capita provincial taxes on fuel, tobacco and alcohol.
- Alberta health premiums were phased out in January 2009, leaving BC as the only western province collecting health premiums.
- In the West, Manitoba is the only province with a payroll tax. Its rate is set at 2.15%.

Share of Provincial Government Revenue Sources, 2008/09 (%)

	BC	AB	SK	MB
Personal and corporate taxes*	26.7	34.7	33.6	31.4
Sales and excise taxes	19.7	5.3	17.4	21.3
Resource royalties	9.9	30.5	20.8	1.5
Federal transfers	15.4	9.8	15.1	36.1
Other revenue**	28.3	19.8	13.1	9.7
	100	100	100	100

Notes: * Includes health premiums in BC and AB. ** The large variety in the share of "Other revenue" mainly reflects operational or accounting method differences. For instance, BC and Alberta book some property taxes they collect on behalf of municipalities as revenue.

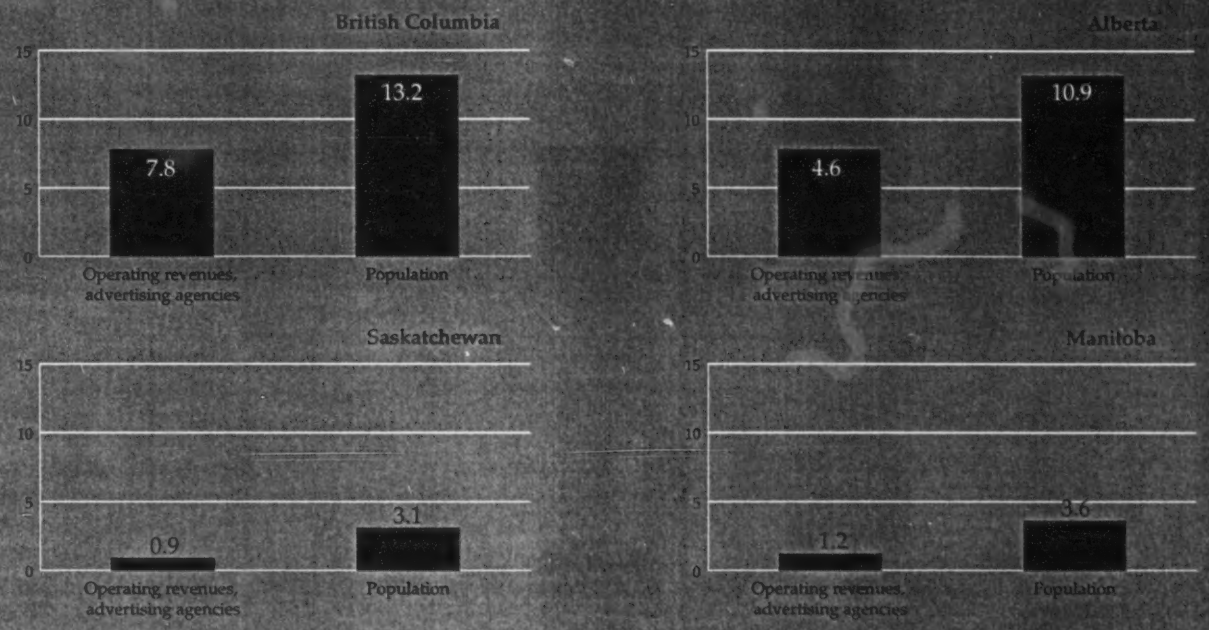
Source: Canada West Foundation, Ready for Takeoff: Bold Tax Policy Moves for a More Competitive Western Canada

BEHIND THE NUMBERS

Only 14.5% of Canadian advertising revenue was earned in the West in 2008 despite being home to 30.8% of Canada's population. Individually, each western province's share of national advertising revenues was also much lower than its weight within Canada's population. Saskatchewan is the most obvious case: it generated only 0.9% of national ad revenues, far less than its one-third of its share of the country's population (3.1%). The majority of the ads we see on TV or in print are designed and produced in the Toronto area. In fact, 60% of Canada's advertising revenues are earned in Ontario—one-and-half times its 40% share of the population.

Although the disproportional nature of these data remained, 2008 did represent an improvement over the previous year. Revenues in Canada's advertising industry rose 3.4% in 2008 compared to 2007, however, for the West alone, the increase was 14.9%.

Share of Canadian Advertising Revenues and Population, 2008 (%)



Source: Statistics Canada

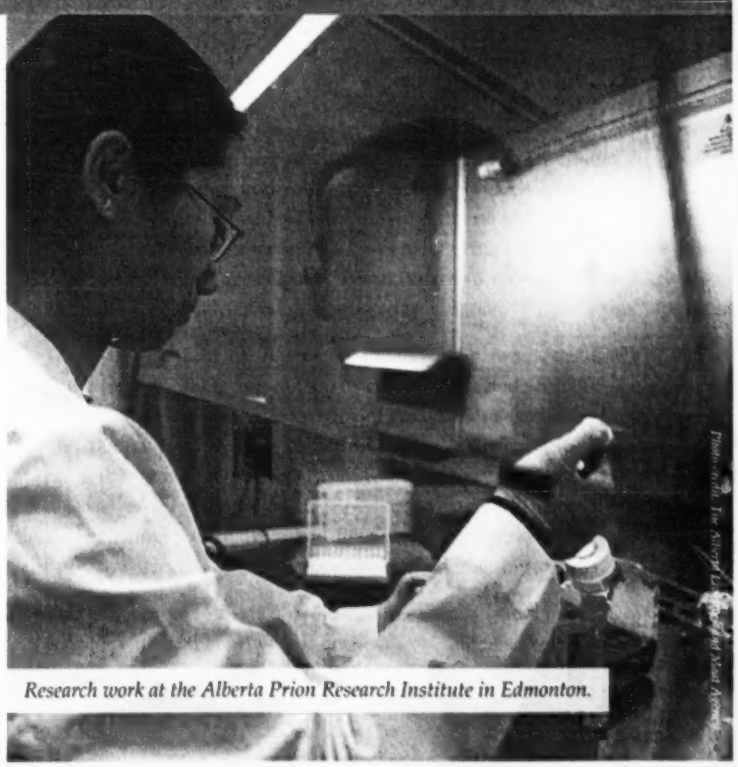
Industry Spotlight: Alberta

Livestock

Beef cattle production in Alberta was started in the late 1800s by English and American settlers. Today, Alberta is home to 5.56 million head of cattle, making Alberta the national leader with 39% of the country's cows. Beef cattle production is Alberta's largest agricultural sector. It earns approximately $3.1 billion annually, 35% of Alberta's farm income.

The livestock industry has faced challenges in recent years. Following the 2003 crisis caused by one cow infected with BSE or "mad cow disease," the provincial government established the Alberta Prion Research Institute to build its capacity to meet the challenges posed by BSE and other prion-related diseases. The profitability of Alberta's livestock industry is also challenged by market and fiscal volatility, market access limitations, increased regulatory costs and higher input costs.

The majority of Alberta's beef remains within Canada: 12% is sold within the province, and 50% is sold elsewhere in Canada, while 30% is exported to the United States and 8% is shipped overseas.



Research work at the Alberta Prion Research Institute in Edmonton.

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opinion

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Minority Governments & Wasted Opportunities

Barring an unprecedented political event, by July 7th Canada will have lived under a minority government for 2,200 days, beating the record length of the three consecutive minority governments we had from 1962 to 1968. However, while the Diefenbaker and Pearson years were marked by significant policy initiatives, many of which are still in place, it is not easy to identify such landmarks among recent federal policy.

"Why are economists concerned with politics?" some will ask. The answer is that the absence of a majority government has hindered the development of bold and innovative economic policy urgently needed by Canada in general and the West more specifically.

Well, we cannot afford to wait any longer. We need to *do something now*. The recession is over, but we still face major economic developments and challenges in areas as fundamental to us as trade, energy, demography and public finances. We are craving initiatives that will improve our tax system, get our productivity growing again and help us take part in the global knowledge-based economy. There are also risks and opportunities represented by the brave new green world.

It is time for Canada to set its course in all those areas. Yet all the government (and its partners in the minority dance, the opposition parties) has delivered is short-term politics, not long-term policy. We can do better than that.

The Pearson minority governments managed to deliver the goods in the 1960s. It was not always pretty (think of the flag debate) but important things got done (think of Medicare and the Canada Pension Plan). When we entered Minorityland in 2004 many analysts used those examples to predict that our current minority governments would be effective ones. Six years later, they might say they were wrong. However, there is still time left to turn things around.

I do not doubt for a minute that the MPs we presently have are full of valuable economic policy ideas. It is the implementation that is problematic. All those good ideas are being kept in storage until an elusive majority is won by one party or the other. It seems that most of what we get is a game of political "gotcha," not true coalition-building.

I think Canadian economists, along with a majority of Canadians, are concerned with this stalemate situation, and are becoming increasingly disenchanted by federal politics. A nightmare scenario of minority parliaments forever is in the minds of many, and has left a lot of us wondering about the country's next big projects.

How can we get out of this? Another election, barely 19 months after the previous one, is out of the question. Waiting for a reallocation of federal seats to shake things up (after the 2011 Census) will take too long. We need action now. Forget about changing our voting system to a proportional-type one. That would take even longer. The only way out is the most arduous one. Our politicians need to put the country's economic interests ahead of their own political skins, like what happened in the 1960s. They need to find the political courage to make this minority parliament work.

This is not an easy task, but it is the only way to break the policy logjam. Additionally, it can yield some side-benefits. The first one is that legislation produced by true compromise between parties will reflect the will expressed by Canadians when they did not grant any party a majority. This is a good thing. Also, Canadians will gradually regain confidence in their national Parliament. This matters even more.

Our elected officials must get the economic policy-making machine humming again. If we leave the country stuck on "pause" for another six years while the rest of the world is hitting the "fast forward" button, we will deeply regret it. The next recession could make the recent one feel like a walk in the park. ■